



Shareowner Alert

Investment Office

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March 26, 2009

Dear Shareowner of Eli Lilly & Co.:

The Annual Meeting of Shareowners of Eli Lilly and Company will be held on Monday, April 20, 2009.

I am writing to you on behalf of the California Public Employees' Retirement System (CalPERS). CalPERS is the largest public pension system in the U.S. with approximately \$172 billion in assets. We manage retirement benefits and health insurance on behalf of nearly 1.3 million members.

CalPERS is a significant long-term shareowner of Eli Lilly and Company ("Eli Lilly") owning approximately 3.4 million shares. We are writing to call your attention to the Annual Meeting of Shareowners to be held on April 20, 2009 and an important proposal that urges the Board to give shareowners the right to amend the company's bylaws by a simple majority vote. **CalPERS urges Eli Lilly shareowners to vote "FOR" Proposal 6.**

POOR LONG-TERM STOCK PERFORMANCE & GOVERNANCE PRACTICES

Time period ending 2/27/2009	Lilly (Eli) & Co (LLY)	Russell 1000 Index	<u>Relative Return</u> Russell 1000 Index	Pharmaceuticals Biotechnology & Life Sciences GICS Industry Group	<u>Relative Return</u> GICS Industry Group
5 years	-53.3%	-28.1%	-25.2%	18.5%	-71.8%
3 years	-41.1%	-39.1%	-2.0%	-11.9%	-29.2%
1 year	-38.4%	-43.6%	5.2%	-17.6%	-20.8%

*Source: Factset

CalPERS believes directors should be accountable to shareowners. Significant long-term total stock return underperformance and the existence of egregious corporate governance practices at Eli Lilly suggest an appropriate level of board accountability is lacking. For example:

- Eli Lilly & Company's stock has underperformed relative to the Russell 1000 index and its industry peer group over the 3 and 5 year time periods ending February 27, 2009.
- The company does not allow shareowners the right to amend the company's bylaws, a right that is granted at approximately 96% of companies in the S&P 500.
- In addition, shareowners do not have the right to call special meetings, remove directors without cause, fill board vacancies, or act by written consent.
- In 2007 and 2008 a management proposal to declassify the board of directors failed to attain the 80% supermajority requirement receiving support of 75% and 77% of the outstanding shares voted respectively. **Despite intensifying support, the classified board remains in place.**



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LACK OF ACCOUNTABILITY - NEED FOR IMPROVED GOVERNANCE PRACTICES

- Eli Lilly has been named to the CalPERS Focus List in the last 2 out of 3 years for long-term stock price underperformance and significant governance issues at the company. We also remain concerned about the company's continued lack of meaningful response to investor wishes regarding past shareowner proposals. On February 17, 2009, CalPERS was one of 24 investor signatories to the Council of Institutional Investors (the Council) letter urging the company to address a simple majority vote standard proposal which received majority support in 2007 and 2008 **[letter attached]**.

YOU CAN HELP – VOTE FOR PROPOSAL #6

- Send a powerful message by voting **FOR** proposal # 6 on Eli Lilly's proxy card.
- Ensure every account, no matter how many or how few shares, supports this proposal.
- Furthermore, we ask our fellow investors – to publicize their vote when cast. We believe this will further unite and encourage investors to both support – and benefit from – this campaign.
- Do not be misled. If you are a large holder and find yourself under pressure from Eli Lilly management to vote against our proposal, ask yourself why defeating this initiative – which is intended to improve board accountability, shareowner rights, and shareowner value – is so important to them.

Please refer to the company's proxy statement for more information. If you have any questions or need assistance in voting your shares, call BNY Mellon Shareowner Services, who is assisting us with this effort, at 201-680-5235.

Sincerely,

Eric Baggesen
Senior Investment Officer – CalPERS Global Equity

PLEASE NOTE: The cost of this solicitation is being borne entirely by CalPERS and is being done through the use of one or more of the following forms of communication: mail, e-mail, and/or telephone communication. CalPERS is not asking for your proxy card. **Please do not send us your proxy card but return it to the proxy-voting agent in the envelope that was provided to you.**